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SUBJECT: Business and Power: Green Mega Project "Desertec" Goes into Next Round

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SUMMARY

¶1. (SBU) The 400-billion euro project "Desertec," designed to capture Saharan solar energy and transmit it to European homes, now has a corporate structure and a CEO. Consortium leader and initiator Munich Re is confident they can overcome all obstacles, including big financial and technical problems. The major challenge lies in politics, working out deals with potential North African host countries as well as gaining the support of France. There could be multiple business opportunities for U.S. renewable energy companies to work with the twelve members of the "Desertec Industrial Initiative Company. End Summary.

EU Closed Shop but Business Opportunities for U.S. Companies

¶2. (SBU) The Desertec Industrial Initiative (DII) (Reftel) includes ABB, Abenga Solar, CeVital, Deutsche Bank, e-on, HSH Nordbank, m+w Zander, MAN Solar Millennium, RWE, Schott Solar, Siemens, under the leadership of Munich Re. Since last November, Desertec has developed from a consortium to a limited liability company (GmbH) with a renowned energy expert as CEO and an office address. Negotiations with French energy companies are also making progress, according to Ernst Rauch (Head of Corporate Climate Center and Desertec spokesman of Munich Re), who recently met with Munich Economic and Commercial Service officers. "EU-based rules and political relationships" make membership in DII a closed shop for American firms," he cautioned. Nevertheless, Rauch could envision business opportunities for American firms either as associated members, or as second and third-tier suppliers to member companies. Chinese firms have contacted DII already, but Rauch said they had not heard from U.S. firms yet. He added that he fully respected U.S. achievements in renewable energy technologies, particularly in wind energy. Munich Re would welcome American businesses seeking Desertec business opportunities. The Managing Director of General Electric Global Research Europe recently opined that in the course of implementation Desertec "would probably move further and further away from the original concept, and adapt to reality." He nevertheless thought that it was a "promising initiative," and he did not foreclose that "GE might do business with Desertec one day."

Challenges: Politics, Money, Water, Sand and Transmission

¶13. (SBU) Munich Re anticipates that it will not be financial or technological issues but political ones that will demand most of the energy and attention of the newly founded DII Company in the coming phase. Although the Desertec concept also includes photovoltaic, wind, hydro, biomass and geothermal energy, the main focus is on solar thermal power plants that will need to be located in politically unstable regions. Rauch believes DII will have to "depend particularly on the contacts o France in North Africa to overcome political obstacles in potential host countries." He added that despite the French preference for nuclear energy, negotiations with French energy companies on joining DII were promising.

¶14. (SBU) Our interlocutors did not anticipate problems with fund raising. The German Aerospace Center DLR estimates that the project will require 400 billion Euros to meet overall costs by 2050. Rauch said he did not see why large participating banks and investors like Deutsche Bank and Munich Re itself should not be able to raise such amounts.

¶15. (SBU) On the technological side, securing an adequate water supply is the biggest technical challenge, according to Rauch. Producing one kilowatt-hour of solar thermal energy requires five liters of water for cooling turbines and rinsing solar reflectors, Rauch explained. This huge demand would likely come from desalinated seawater. Large amounts of fresh water created by the plants and not used by Desertec would be an important "side-effect" that arid host countries would highly value, he predicted. Another challenge is transmission of electricity via high voltage direct current (HVDC) using cables laid under water and across long European distances, which is expensive and complex. However, a senior Siemens representative told Munich Pol/Econ Chief recently that Siemens has new technology that will make HVDC more feasible

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and profitable for a project like Desertec. He agreed that "water is the number one challenge, after money and political security for the project."

Reality Check Copenhagen

¶16. (SBU) The Desertec initiators were disappointed about the results of the Copenhagen climate change conference. Even though Munich Re, as an insurance company, would probably benefit short-term if the risk of climate-driven natural disasters increased, they would have wished for a more concrete agreement at Copenhagen due to their involvement in Desertec. The increased price tag for carbon dioxide emissions provided by a global Cap and Trade system would make the costs for an alternative like Desertec look more reasonable," Rauch said. He added that as a result of Copenhagen, DII will seek to work more with the private sector instead of relying on "positive political forces."

COMMENT

¶17. (SBU) Renowned economists remain skeptical about the financial feasibility of the high-risk Desertec project. Although Munich Re might benefit as an insurance company, international regulation of carbon dioxide emissions will be essential to raising sufficient long-term funds from investors. Besides money, there are hefty political and technological problems. GE has not closed the door to Desertec. Now is the time for other American firms to get to know Desertec in order to position themselves for the long term.

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